

STATE FINANCE COMMITTEE
OLYMPIA, WASHINGTON

November 16, 2000

The State Finance committee met in a special meeting after notice duly given to the press and radio of Thurston County.

Present: Michael J. Murphy, State Treasurer
Brad Owen, Lieutenant Governor

Also Present: Allan J. Martin, Office of the State Treasurer
Martin Reynoso, Office of the State Treasurer
Shad Pruitt, Office of the State Treasurer
Susan Melvin, Office of the State Treasurer
Suzanne Coit, Office of the State Treasurer
Gretchen Gale, Office of the State Treasurer
Helga Morgenstern, Department of Transportation
Bill Starkey, Department of Transportation
Vicki Cox, Office of the State Treasurer
Kristi Wolgamot, Office of the State Treasurer
Rodney Wendt, Orrick, Herrington & Sutcliffe
Bill Doyle, Orrick, Herrington & Sutcliffe
Dean Torkelson, Seattle Northwest Securities
Nancy Adams, Office of the State Treasurer, PDPC
Svein Braseth, Office of the State Treasurer
Darlene DeRose, Montague DeRose & Associates
Jeanne A. Cushman, Office of the Attorney General
Susan Martin, Office of the State Treasurer
Barton Potter, Office of the State Treasurer
Mike Roberts, Office of Financial Management

Chairman Murphy called the meeting to order.

Lt. Governor Owen moved the minutes for the September 19, 2000 meeting be approved. Chairman Murphy seconded the motion. The motion passed and the minutes were adopted.

Mr. Martin said proposed Resolution No. 928 authorizes the issuance and sale of General Obligation Bonds, Series 2001C of the state, in the principal amount of \$305,760,000, more or less, authorized by Chapter 14, Laws of 1989, 1st ex. sess., as amended, and Chapter 380, Laws of 1999, reg. sess., for the purpose of providing funds to pay and reimburse the state for various state capital project expenditures; fixing the date, form, terms, maturities, redemption provisions and covenants of the bonds; providing for certain other provisions safeguarding the payment of the principal thereof and interest thereon; and authorizing and directing the sale of said bonds.

Mr. Martin said the Series 2001C Bonds will be used to finance projects authorized by the 1999-01 capital budget. Bond proceeds from this proposed issue are to be deposited or transferred to the following funds: State Building Construction Account (fund 057), State Higher Education Construction Account (fund 056), and Higher Education Construction Account (fund 01L). Mr. Martin said bond counsel is Bill Doyle and Rodney Wendt with Orrick, Herrington & Sutcliffe and financial advisors are Dean Torkelson with Seattle Northwest Securities and Darlene DeRose with Montague DeRose and Associates. Mr. Torkelson said that interest rates have been relatively benign with today's interest rate being 5 ¾%, which is reasonable. Mr. Doyle said the language within the resolution was due and proper and consistent with the committee's rules.

Mr. Martin presented proposed Resolution No. 928 to the committee.

Resolution No. 928 authorizes the issuance and sale of \$305,760,000, more or less, State of Washington Various Purpose General Obligation Bonds Series 2001C, authorized by Chapter 14, Laws of 1989, 1st ex. sess., as amended, and Chapter 380, Laws of 1999, reg. sess.

Lt. Governor Owen moved to adopt Resolution No. 928. Chairman Murphy seconded the motion and the resolution was adopted.

Mr. Martin said proposed Resolution No. 929 provides for the issuance of Motor Vehicle Fuel Tax General Obligation Bonds, Series 2001D, of the state, in the principal amount of \$172,000,000, more or less, authorized by the following chapters: Ch. 321, Laws of 1998 (Referendum 49), (RCW 47.10.843); Ch. 7, Laws of 1967, ex. Sess., as amended, (RCW 47.10.761 & 762); Ch. 431, Laws of 1993, (RCW 47.10.812); Ch. 432, Laws of 1993, (RCW 47.10.819); Ch. 183, Laws of 1994, (RCW 47.10.834), as amended by Ch. 15, Laws of 1995, 2nd sp. Sess.; and Ch. 440, Laws of 1993, as amended, (RCW 47.26.500), for the purpose of providing funds to pay and reimburse various state highway projects and to pay and reimburse the transportation improvement account, fixing the date, form, terms, maturities, redemption provisions and covenants of the bonds; providing for certain other provisions safeguarding the payment of the principal thereof and interest thereon; and authorizing and directing the sale of said bonds.

Mr. Martin referred to a letter from the Department of Transportation which lists projects to be funded by these bonds. The public portion of the Public/Private Initiatives RCW 47.10.834 is \$3,589,000 which includes the Tacoma Narrows Bridge expense. Mr. Martin said proposed Resolution No. 929 provides for a 10-year call optional, not five-year as indicated in the memo in the committee booklet.

Mr. Martin said Mr. Braseth had been tracking the state's debt limit and asked him if proposed bond issues would be within the debt limit. Mr. Braseth affirmed this and added that the proposed Motor Vehicle Fuel Tax bonds are excluded from the limit.

Lt. Governor Owen asked Ms. Morgenstern for clarification of the recent court decision that threw out the toll bridge package. Ms. Morgenstern said the money from these bonds will

purchase right of way, meaning the approaches to the bridge, which does not tie into the public/private agreement. Lt. Governor Owen also asked for information on who will pay for the recent damage to the Highway 18 bridge. Ms. Morgenstern said it was an insurance issue, but would send the committee members more information on the matter.

Mr. Martin presented proposed Resolution No. 929 to the committee.

Resolution No. 929 authorizes the issuance and sale of \$172,000.000, more or less, State of Washington Motor Vehicle Fuel Tax General Obligation Bonds, Series 2001D, authorized by RCWs 47.10.843, 47.10.761 & 762, 47.10.812, 47.10.819, 47.10.834 and 47.26.500.

Lt. Governor Owen moved to adopt Resolution No. 929. Chairman Murphy seconded the motion and the resolution was adopted.

Mr. Martin said proposed Resolution No. 930 provides for the issuance of General Obligation Refunding Bonds, Series R-2001T (Taxable) of the state, in the principal amount of \$11,596,756, more or less, for the purpose of refunding certain outstanding various purpose general obligation bonds; approving a closing agreement with the Internal Revenue Service; providing for payment of a closing agreement not to exceed \$1,169,687 to the Internal Revenue Service, providing for certain other provisions safeguarding the payment of the principal thereof and interest on the bonds; approving the form and authorizing the execution of the escrow agreement regarding the bonds to be refunded; and providing for other matters properly related thereto. The Housing Trust Fund (HTF) was established by the Washington State Legislature in the late 1980s. The legislative intent was to establish a continuously renewable resource to help communities meet the housing needs of low-income and special needs populations. Today, the HTF, which is administered through the Washington State Office of Community Development (OCD), supports the construction or rehabilitation of more than 3,000 housing units each biennium.

Mr. Martin said the Internal Revenue Code (IRC) limits the volume of tax-exempt bonds that may be issued to finance activities or facilities used for nongovernmental purposes (IRC Section 141). Non-governmental purposes include use of bond proceeds to pay the costs of facilities expected to be owned or used by, or to make any loan to, (a) the federal government (including any federal department or agency), (b) any private nonprofit corporation (including any 501(c)(3) organization), and (c) any other private entity, such as a business corporation, partnership, limited liability company, or association, etc. Specifically, IRC limits the amount of proceeds of any tax-exempt bond issue that can be loaned for nongovernmental purposes to 5 percent or \$5 million, whichever is less. Note that the ultimate use of the bond-financed property determines the character of the use of the bond-financed property.

Mr. Martin said the sale of the Series R-2001T (Taxable) refunding bonds is proposed to help assure compliance by the state with the above-referenced federal tax laws and to ensure continued exclusion of the interest on certain outstanding various purpose general obligation bonds from the gross income of the recipients thereof for purposes of federal income taxation, in accordance with covenants made by the state in connection with the sale of those outstanding

bonds. The proceeds of the proposed Series R-2001T (Taxable) refunding bonds will be used to refund and defease those portions of the state's Various Purpose General Obligation Bonds, Series 1993A, Series 1994A, and Series 1994B (the "Series 1993A, Series 1994A, and Series 1994B Bonds") that the state has determined exceeded the private use limits described above and, as part of such refunding and defeasance, to pay a closing agreement amount to the Internal Revenue Service computed in accordance with federal revenue procedure and the terms of a closing agreement with the Internal Revenue Service. The closing agreement with the Internal Revenue Service provides for payment of a closing payment amount equal to the income lost by the United States Treasury by virtue of the fact that the interest earnings on the portions of the Series 1993A, Series 1994A, and Series 1994B Bonds that exceeded private use limits was treated as exempt from federal income taxes when the Internal Revenue Service has reason to believe that such interest should have been included in bond owners' gross income for federal income tax purposes.

Mr. Martin said compliance by the state with the Closing Agreement with the Internal Revenue Service will provide closure to this matter and ensure that the outstanding Series 1993A, 1994A and 1994B Bonds, together with any other bonds of the state that are treated as part of the same issues of bonds for federal tax purposes, will continue to be treated as tax exempt. Proposed Resolution No. 930 provides for use of electronic bidding as well as hand delivered bids to the Office of the State Treasurer. The Series R-2001T (Taxable) bonds are proposed to be sold competitively on December 18, 2000.

Mr. Martin acknowledged the work of Attorney General Christine Gregoire, her Assistant Attorney General Jeanne Cushman, special tax counsel Mitch Rapaport with Nixon Peabody, local bond counsel Hugh Spitzer and Bill Tonkin of Foster Pepper & Shefelman, financial advisors Dean Torkelson of Seattle Northwest Securities and Darlene DeRose of Montague DeRose and Associates. Mr. Martin said they believe it is a fair settlement, avoids a protracted audit and protects the bondholders.

Chairman Murphy said it has been an extraordinary series of events since July of 1999. He said he was proud of the work his staff has done and appreciated Attorney General Gregoire and her staff for bringing it to conclusion. He said the Office of the State Treasurer had identified the non-compliance to the Internal Revenue Service and worked with the Service to protect bondholders. He said it was possible that the cost could have been \$160 million.

Mr. Martin presented proposed Resolution No. 930 to the committee.

Resolution No. 930 authorizes the issuance and sale of \$11,596,756, more or less, State of Washington General Obligation Refunding Bonds, Series R-2001T (Taxable).

Lt. Governor Owen moved to adopt Resolution No. 930. Chairman Murphy seconded the motion and the resolution was adopted.

Mr. Martin explained the closing agreement with the Internal Revenue Service was part of the resolution. Chairman Murphy explained the agreement doesn't take effect until the

Internal Revenue Service receives payment. The bond sale is scheduled for December 18, 2000 with closing on December 28, 2000. The money will be wired to them on that day. Chairman Murphy said Mr. Tonkin, Mr. Spitzer, and Mr. Rapaport, formerly with the Internal Revenue Service, had worked diligently on the solution. Mr. Martin said Mr. Rapaport would provide documents when the agreement had been complied with.

There being nothing further to come before the committee, the meeting was adjourned at 11:27 a.m.

STATE FINANCE COMMITTEE
STATE OF WASHINGTON

Michael J. Murphy, State Treasurer & Chairman

Gary Locke, Governor & Member

Brad Owen, Lieutenant Governor & Member

Allan J. Martin
Deputy State Treasurer & Secretary